

UMZINYATHI DISTRICT MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

TABLE OF CONTENTS

	Page
1 General information	1
2 Foreword	4
3 Report of the Auditor-General	5
4 Chief Financial Officer's Report	6
5 Accounting policies	9
6 Balance sheet	14
7 Income statement	15
8 Cash flow statement	16
9 Notes to the annual financial statements	17
10 Appendices	
A Statutory funds, reserves and provisions	26
B External loans and internal advances	27
C Analysis of fixed assets	28
D Analysis of operating income and expenditure for the year ended 30 June 2006	29
E Detailed income statement for the year ended 30 June 2006	30
F Statistical information	31

UMZINYATHI DISTRICT MUNICIPALITY**ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006****GENERAL INFORMATION****Old Council members - to 28 March 2006**

Speaker	Clr. F.J. Sikhakhane
Mayor	Clr. M.S. Yengwa
Deputy Mayor	Clr. A.M. Mtshali
Exco Members	Clr. J.M. Mthethwa Clr. F.S. Mkhize
Council Members	Clr. Z.R. Sithole Clr. B.J. Sibiya Clr. M.I. Sithole Clr. A. Shaikh Clr. M.G. Zikode Clr. D.J. Zulu Clr. M.T. Mzila Clr. M.G.L. Newmarch Clr. P.M.S. Ngubane Clr. W.N. Mbatha Clr. P.M. Nxele Clr. L.D. Ngubane Clr. B. Chambule Clr. B.J. Dladla Clr. P.G. Mabilisa Clr. F.B.H. Mazibuko Clr. N.E. Zwane

New Council members - from 28 March 2006

Speaker	Clr. S.R. Nyamane
Mayor	Clr. M.S. Yengwa
Deputy Mayor	Clr. T.H. Mchunu
Exco Members	Clr. F.S. Mkhize Clr. B Brown Clr. A.M. Shaikh
Council Members	Clr. S.M.B. Buthelezi Clr. X.S. Xaba Clr. B.H. Ndlovu

UMZINYATHI DISTRICT MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

GENERAL INFORMATION (continued)

Clr. T.O. Zondi
Clr. E.T. Malunga
Clr. B.A. Xulu
Clr. I Bedassi
Clr. P Nxele
Clr. D Singh
Clr. D.J. Zulu
Clr. J.C. Ndlovu
Clr. A.M. Mtshali
Clr. F.I. Mdlatose
Clr. F.J. Sikhakhane
Clr. B Dumakude
Clr. T.M.B. Zulu
Clr. P.M.S. Ngubane

Grading of Municipality

Grade 4 (in terms of Government Notice R999 dated 2 October 2001)

Auditors

The Auditor-General
Private Bag X9034
PIETERMARITZBURG
3200

Bankers

ABSA Bank Limited, Current Account, Dundee (Operating account)

Registered office

Princess Magogo Building
39 Victoria Street
DUNDEE
3000

P O Box 1965
DUNDEE
3000

Tel: (034) 218 1945/6
Fax: (034) 218 1940
E-mail: registry@umzinyathi.gov.za

UMZINYATHI DISTRICT MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

GENERAL INFORMATION (continued)

Municipal Manager

Otto B Kunene
Personnel Management Certificate, CEO Certificate

Chief Financial Officer

Gerhard Esterhuizen
FIAC - AIMFO

Approval of Financial Statements

The annual financial statements set out on pages 6 to 31 were approved by the Municipal Manager on 30 August 2006.



OTTO B KUNENE
MUNICIPAL MANAGER
(ACCOUNTING OFFICER)



GERHARD ESTERHUIZEN
CHIEF FINANCIAL OFFICER

UMZINYATHI DISTRICT MUNICIPALITY

FOREWORD

We continue to create support structures where communities from different backgrounds are able to participate in community and government programmes. Efforts are made to improve the living conditions of all the people within our communities by providing access to at least a basic level of service.

In the 2004/05 financial year uMzinyathi District Municipality bought the Natal Agri Building and it became the new home of uMzinyathi District Municipality. On the 11 February 2006 we named the building after an outstanding woman of Africa, Princess Magogo. Princess Magogo inspired us by her teachings and the kind woman she was. That is why our offices will be a home for service delivery. It is where we move from to serve our community. It is where plans to improve the quality of lives of the people of uMzinyathi District are crafted and executed.

We have entered a new period with new challenges, for one being the new Council that was inaugurated on the 29th March 2006 and the abolishment of the RSC levies from 30 June 2006. With the commitment and support that we have received in the past we will transform the challenges into opportunities.

I want to thank each and every Councillor and employee for supporting the Council and myself in this financial year and express the wish that the current spirit of trust and understanding will be maintained and the uMzinyathi District Municipality will be in the near future regarded as a model District Municipality.

A handwritten signature in black ink, consisting of a stylized 'M' and 'Y' followed by a long horizontal line.

COUNCILLOR M.S. YENGWA
MAYOR: UMZINYATHI DISTRICT MUNICIPALITY

UMZINYATHI DISTRICT MUNICIPALITY

REPORT OF THE AUDITOR-GENERAL

30 JUNE 2006

The report of the Auditor-General will be inserted after the audit.

UMZINYATHI DISTRICT MUNICIPALITY

REPORT OF THE CHIEF FINANCIAL OFFICER

30 JUNE 2006

1. INTRODUCTION

I am pleased to present a concise overview of the past financial year's operating results. The operating income is 2.18% below budget and operating expenditure is 17.42% below budget, uMzinyathi District Municipality has realised an operating surplus of R12 493 085 (R12 173 240 in 2005).

Levy income as at 30 June 2006 amounted to R11 276 248 (R10 896 351 in 2005) and was budgeted for R10 595 000.

2. OPERATING RESULTS

Details of the operating results per department, classification and object of expenditure are included in Appendices D and E. The applicable statistics are shown in Appendix F.

The overall operating results for the year ended 30 June 2006 are as follows:

	Actual 2005 R	Actual 2006 R	Variance 2005/06 %	Budget 2006 R	Variance Actual / Budget %
Income					
Surplus/(Deficit)	8,336,210	26,888,301	222.55%	-	-
for the year	88,907,179	72,104,526	-18.90%	73,712,568	-2.18%
Sundry Transfers	6,378,851	(9,810,658)			
Sub-total	103,622,240	89,182,169	-13.94%	73,712,568	20.99%
Expenditure					
for the year	76,733,939	59,611,441	-22.31%	72,187,068	-17.42%
Closing Surplus/(Deficit)	26,888,301	29,570,728	9.98%	1,525,500	1838.43%
Sub-total	103,622,240	89,182,169	-13.94%	73,712,568	20.99%

2.1 Resource Support Services

	Actual 2005 R	Actual 2006 R	Variance 2005/06 %	Budget 2006 R	Variance Actual / Budget %
Income	58,300,567	38,789,287	-33.47%	36,644,760	5.85%
Expenditure	46,127,327	24,091,636	-47.77%	35,987,809	-33.06%
Surplus / (Deficit)	12,173,240	14,697,651	20.74%	656,951	2137.25%
total income	20.88%	37.89%	-61.96%	1.79%	36520.45%

UMZINYATHI DISTRICT MUNICIPALITY

REPORT OF THE CHIEF FINANCIAL OFFICER (continued)

30 JUNE 2006

2.2 Trading Services: Bulk Water

	Actual 2005 R	Actual 2006 R	Variance 2005/06 %	Budget 2006 R	Variance Actual / Budget %
Income	30,606,612	33,315,239	8.85%	37,067,808	-10.12%
Expenditure	30,606,612	35,519,805	16.05%	36,199,259	-1.88%
Surplus / (Deficit)	-	(2,204,566)	100.00%	868,549	-353.82%
income	0.00%	-6.62%	1129.97%	2.34%	3495.04%

3. CAPITAL EXPENDITURE AND FINANCING

The expenditure on fixed assets incurred during the year amounted to R888 770.

The expenditure consists of the following:

	Actual 2006 R	Budget 2006 R	Actual 2005 R
Furniture & Equipment	139,892	280,000	105,144
Furniture & Equipment - Grants	748,878	-	-
Infrastructure Projects	-	66,967,012	2,964,598
Land & Buildings	-	-	8,000,000
	888,770	67,247,012	11,069,742

Resources used to finance the fixed assets were as follows:

	Actual 2006 R	Budget 2006 R	Actual 2005 R
Revenue Contributions	139,892	280,000	8,069,742
Grants & Subsidies	748,878	66,967,012	-
Finance Leases / External Loans	-	-	3,000,000
	888,770	67,247,012	11,069,742

A complete analysis of capital expenditure is included in Appendix C.

More details regarding external loans, internal advances and other sources of financing used to finance fixed assets are shown in Appendices B and C respectively.

UMZINYATHI DISTRICT MUNICIPALITY

REPORT OF THE CHIEF FINANCIAL OFFICER (continued)

30 JUNE 2006

4. EXTERNAL LOANS, INVESTMENTS AND CASH

External loans outstanding as at 30 June 2006 amount to R3 346 765 (R3 366 556 in 2005) as set out in note 3 and Appendix B.

Investments and cash as at 30 June 2006 amount to R58 369 252 (R59 314 294 in 2005).

5. STATUTORY FUNDS, RESERVES AND PROVISIONS

Statutory funds as at 30 June 2006 amount to R8 756 222 (R7 529 196 in 2005).

Reserves as at 30 June 2006 amount to R15 054 326 (R23 266 888 in 2005).

The provision for leave payments was increased to R876 966 (R686 003 in 2005).

The movement regarding statutory funds, reserves and provisions is set out in Appendix A.

A contribution of 3% of total income was made to the capital development fund and 50% of the interest earned by the capital development fund was transferred back to the operational services in terms of the Local Authorities Ordinance of 1974, Act No. 25 of 1974.

6. PROJECTS

Incomplete projects have been treated as debtors and creditors, where necessary these will be capitalised upon completion.

7. CONTINGENT LIABILITIES

In September 2003 the municipality entered into an agreement with PriceWaterhouseCoopers for assistance in the collection of the VAT debtor of R7 647 612. In terms of this agreement an amount of R667 044 will be payable to PriceWaterhouseCoopers on successful collection of this debt.

8. APPRECIATION

I would like to thank the Mayor, the Deputy Mayor, the Speaker, Members of the Exco Committee, Councillors, the Municipal Manager and Heads of Departments for the support they have given me and my personnel during the year.

I would also like to thank the staff of the Finance Department for their commitment and support on preparing the financial statements.


GERHARD ESTERHUIZEN (FIAC AIMFO)
CHIEF FINANCIAL OFFICER

UMZINYATHI DISTRICT MUNICIPALITY

ACCOUNTING POLICIES

1. Basis for preparation

These financial statements have been prepared so as to conform to the standards laid down by the Institute of Municipal Finance Officers in its Code of Accounting Practice (1997) and Report on Published Annual Financial Statements (2nd Edition, January 1996).

The financial statements are prepared on the historical cost basis, adjusted for fixed assets as more fully detailed in Accounting Policy note 3. The accounting policies are consistent with those applied in the previous year, except if otherwise indicated.

The financial statements are prepared on the accrual basis as stated:

- Income is accrued when collectible and/ or measurable.
- Levies are accounted for on a cash basis and are recognised as income when received.
- Expenditure is accounted for in the accounting period it is incurred.

2. Consolidation

The financial statements include the Resource Support Services, Regional Services and the different funds and reserves. All inter departmental charges are set-off against each other, with the exception of regional council levies and subsidies, which are treated as income and expenditure in the respective departments.

3. Fixed Assets

Fixed assets are stated:

- At historical cost, or
- At valuation, (based on the market price at date of acquisition), where assets have been acquired by grant or donation, while they are in existence and fit for use.

Depreciation

The balance shown against the heading "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to a provision for depreciation; however, certain structural differences do exist. Apart from advances from the various Council funds, assets may also be acquired through:

UMZINYATHI DISTRICT MUNICIPALITY

ACCOUNTING POLICIES (continued)

- Appropriations from income, where the full cost of the asset forms an immediate and direct charge against the operating income and therefore it is unnecessary to make any further provision for depreciation.
- Grants or donations, where the amount representing the value of such grant or donation is immediately credited to the "Loans Redeemed and Other Capital Receipts" account.

All proceeds from the sale of fixed assets are credited to the Capital Development Fund. Net proceeds from the sale of all other assets are credited to the surplus on sale of assets or utilised immediately to partly finance replacement assets.

Capital assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated lives of the assets acquired from such loans or advances. Interest is charged to the service concerned at the ruling interest rate applicable at the time that the advance is made.

4. Stock

The value of all stocks and stores is reflected at the lower of average cost and net realisable value.

5. Funds and Reserves

Consolidated Capital Development Fund

Section 103(9) (1) of the Local Authorities Ordinance No. 25 of 1974 requires a contribution of not less than three percent of the annual revenue accruing to the municipality fund and to the relevant trading funds; provided that when a capital development fund has reached an amount which is sufficient for the Council's immediate or foreseeable needs the Council may suspend or reduce contributions into such fund for such a period as may be approved by the Premier.

Loan Redemption Fund

The redemption of the following stock is provided for by annual contribution to the Loan Redemption Fund calculated on the life of assets acquired but subject to a limitation of a maximum of 35 years on the life of any individual asset.

- Public Investment Commissioner
- UAL Merchant Bank

UMZINYATHI DISTRICT MUNICIPALITY

ACCOUNTING POLICIES (continued)

- Sanlam
- Glencoe Transitional Local Council

Internal loans are repaid in relation to the life of an asset. Redemption on government loans and other loans not specified above are paid half yearly on an annuity basis.

Depreciation and Renewals Fund

Section 146(1) of the Local Authorities Ordinance, 1974 (No 25 of 1974) requires a contribution for renewing any assets, work or undertaking, or portion thereof, having a certified life less than the loan period.

Reserves: Government grants

These reserves represent the unspent portion of conditional grants received from the various spheres of government. The unspent portion of the grant is transferred to either the income statement or loans redeemed and other capital receipts as appropriate when the relevant expenditure is incurred.

Reserves: General Distributable Reserve

This represents funds set-aside from operating income to be utilised to fund council operations or programmes. The funds are paid into a reserve until there is sufficient funding available for the need identified.

Reserves: Capital Carry-over Reserve

Where projects to be funded from income are not completed by the end of the financial year for various reasons, the funds earmarked for the completion of such projects are debited to this reserve and the projects completed in the following year.

6. Surpluses and Deficits

Any surpluses or deficits arising from the operation of each service are retained in that service for its own use.

7. Treatment of administration and other overhead expenses

The cost of internal support services is transferred to the various services in accordance with the Institute Report on Accounting for Support Services (June 1990).

UMZINYATHI DISTRICT MUNICIPALITY

ACCOUNTING POLICIES (continued)

8. Leased assets

Fixed assets held under finance leases are capitalised. Such asset are effectively amortised over the term of the lease agreement.

- Lease finance charges are allocated to the accounting periods over the duration of the lease by the effective interest rate method, which reflects the extent and cost of lease finance utilised in each accounting period.
- All other leases are treated as operating leases and the relevant rentals are charged to the operating account in a systematic manner related to the period of use of the assets concerned.

9. Investments

Investments are shown at cost and are invested in accordance with section 125 of the Local Authorities Ordinance, 1974 (No 25 of 1974) and in terms of the Kwa-Zulu and Natal Joint Services Act, 1990 (No 84 of 1990). Permanent declines in value are not normally envisaged as funds are invested with approved banking institutions as per IMFO guidelines.

However, in the event that permanent declines in value do occur, these will be written-off against unappropriated surpluses.

10. Income recognition

Water Billing

Meters are read and billed monthly and income from water sales is recognised on the date such meters are read.

Levies are recognised as income when received.

UMZINYATHI DISTRICT MUNICIPALITY

ACCOUNTING POLICIES (continued)

11. Retirement benefits

The Council and its employees contribute to the KZN Joint Municipal Pension Fund which provides retirement benefits for such employees.

The retirement benefit plans are subject to the Pension Funds Act, 1956 with pensions being calculated on the final annual pensionable remuneration paid. The current contributions are charged against operating income on the basis of current service costs.

Unfavourable experience adjustments and the cost of securing increased benefits are charged to operating income by way of increased contributions usually within five to seven years or other such period recommended by the actuary.

Favourable experience adjustments are retained in the retirement benefit plan. Full actuarial valuations are performed every three years.

UMZINYATHI DISTRICT MUNICIPALITY

BALANCE SHEET AS AT 30 JUNE 2006

	Note	2006 R	2005 R
CAPITAL EMPLOYED			
FUNDS AND RESERVES		23,810,548	30,796,083
Accumulated funds	1	8,756,222	7,529,196
Reserves	2	15,054,326	23,266,887
ACCUMULATED SURPLUS	14	29,570,728	26,888,299
		53,381,276	57,651,332
LONG-TERM LIABILITIES	3	3,129,366	3,149,373
		56,510,642	60,833,755
EMPLOYMENT OF CAPITAL			
FIXED ASSETS	4	3,346,766	3,523,533
INVESTMENTS	5	20,396,878	23,428,868
LONG-TERM DEBTORS	6	271,174	552,532
		24,014,818	27,504,933
NET CURRENT ASSETS		32,495,823	33,328,822
CURRENT ASSETS		92,716,230	97,219,351
Debtors	7	54,743,856	61,333,925
Investments: short-term portion	5	2,974,060	3,696,933
Cash	18	34,998,314	32,188,493
CURRENT LIABILITIES		60,220,406	63,890,529
Provisions	8	876,967	686,003
Creditors	9	59,126,040	62,987,343
Loans: short-term portion	3	217,399	217,183
		56,510,641	60,833,755

UMZINYATHI DISTRICT MUNICIPALITY

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	2006			
	Actual Income R	Actual Expenditure R	Surplus/ (Deficit) R	Budget Surplus/ (Deficit) R
RESOURCE SUPPORT SERVICES	58,300,567	46,127,327	12,173,240	(656,951)
TRADING SERVICES: WATER	30,606,612	30,606,612	-	(868,549)
TOTAL	88,907,179	76,733,939	12,173,240	(1,525,500)
Appropriations, for the year (refer to note 14)			(9,810,658)	
Net surplus for the year			2,682,427	
Accumulated surplus beginning of the year			26,888,301	
ACCUMULATED SURPLUS END OF THE YEAR			29,570,728	

UMZINYATHI DISTRICT MUNICIPALITY

CASH FLOW STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

	Note	2006 R	2005 R
CASH RETAINED FROM OPERATING ACTIVITIES		5,361,223	45,804,869
Cash generated by operations	15	(668,131)	16,776,794
Investment income	13	2,557,016	2,820,034
(Increase) / Decrease in working capital	16	3,201,304	13,997,516
		5,090,189	33,594,344
Less : External interest paid		362,007	341,590
Cash available from operations		4,728,182	33,252,754
Cash contributions from the Public and State		633,041	12,552,115
CASH UTILISED IN INVESTING ACTIVITIES		(888,770)	(11,069,741)
Investment in fixed assets	4	(888,770)	(11,069,741)
NET CASH FLOW		4,472,453	34,735,128
CASH EFFECTS OF FINANCING ACTIVITIES			
Increase / (Decrease) in long-term loans	17	(20,007)	(15,800,401)
Investment written-off	5 / 14	(5,397,488)	-
(Increase) / Decrease in cash investments	18	3,754,863	5,302,460
(Increase) / Decrease in cash on hand and at bank	19	(2,809,821)	(24,237,187)
NET CASH GENERATED		(4,472,453)	(34,735,128)

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006

	2006 R	2005 R
1. ACCUMULATED FUNDS		
Consolidated Capital Development Fund	8,756,222	7,529,196
	<u>8,756,222</u>	<u>7,529,196</u>
(Refer to Appendix A for more detail)		
2. RESERVES		
Government Grants	14,339,066	22,078,810
Capital carry-over Reserve	100,362	378,036
Disaster Management Fund	614,909	810,041
	<u>15,064,326</u>	<u>23,266,887</u>
(Refer to Appendix A for more detail)		
3. LONG-TERM LIABILITIES		
Finance leases	296,431	445,531
Other loans	<u>3,080,334</u>	<u>2,921,025</u>
	3,346,765	3,366,556
Less: Current portion transferred to Current liabilities	217,399	217,183
Other loans	<u>78,975</u>	<u>78,975</u>
Finance leases	<u>138,424</u>	<u>138,208</u>
	<u>3,129,366</u>	<u>3,149,373</u>

(Refer to Appendix B for more detail on long-term liabilities)

LOCAL REGISTERED STOCK

Bear interest at rates between 9.5% and 14.75% per annum and have been redeemed in full.

ANNUITY AND OTHER LOANS

Bear interest at rates of between 7.5% per annum and 16.85% and will be fully redeemed in 2019.

The terms of the Loan received from Amajuba District Municipality have not yet been agreed upon. The finance leases are secured by assets of uMzinyathi District Municipality as reflected in note 4.

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2006 R	2005 R
4. FIXED ASSETS		
Fixed assets	32,782,568	140,186,578
Capital outlay during the year	888,770	11,069,742
Less : Assets written off, transferred or disposed of during the year	-	118,473,752
Total fixed assets	<u>33,671,338</u>	<u>32,782,568</u>
Less : Loans redeemed and other capital receipts	30,324,572	29,259,035
Net fixed assets	<u>3,346,766</u>	<u>3,523,533</u>

Fixed assets totalling R1 904 035 (2004: R1 904 035) have been provided as security for finance leases. (Refer to note 3)

(Refer to Appendix C and section two of the CFO's Report for more detail on fixed assets)

5. INVESTMENTS

Unlisted :

Long term deposits	20,396,878	23,428,868
Call deposits	2,974,060	3,696,933

Total investments	<u>23,370,938</u>	<u>27,125,801</u>
-------------------	-------------------	-------------------

Managements' valuation of unlisted investments.

	<u>23,370,938</u>	<u>27,125,801</u>
--	-------------------	-------------------

Average gross rate of return on investments	10%	8%
---------------------------------------------	-----	----

Local authorities are required to invest funds which are not immediately required, with prescribed institutions and the period should be such that it will not be necessary to borrow funds against the investment at a penalty rate to meet commitments.

Investments valued at R4 107 505 (2004 : R4 107 505) have been invested in a zero coupon bond and ceded to Infrastructure Finance Corporation (INCA) in terms of the loan agreement with INCA.

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

2006
R

2005
R

The New Republic Bank at which Council has invested surplus funds at 30 June 2006 of R2 974 060 (2005 : R3 696 933) was placed under receivership in the 2002 financial year. At present the recovery of this investment is uncertain. No provision has been made in this regard.

Institution

Investec	-	4,934,849
New Republic Bank	2,974,060	2,888,184
First National Bank	20,396,878	19,302,769
Total	23,370,938	27,125,802

6. LONG TERM DEBTORS

Car loans	90,225	580,993
Less : Provision for doubtful debts	-	-
	90,225	580,993
Bridging finance	225,293	279,730
Other loans	22,000	22,000
	337,518	882,723
Less : Short-term portion	66,344	330,191
	271,174	552,532

Soft loan of R700 000 granted in 1993 by the then uThukela Joint Services Board to the then Dundee Municipality for a period of 15 years at 5% interest per annum.

7. DEBTORS

Consumer debtors	-	14,120,079
Other debtors	38,207,528	33,611,122
Deposits	-	74,243
Inter-authority debtors	-	1,474,265
Staff debtors	131,403	96,240
Short-term portion of long-term debtors	66,344	330,191
Receiver of Revenue - Value Added Tax	20,930,056	12,533,985
Less : Provision for doubtful debts	(4,591,476)	(906,201)
	54,743,854	61,333,924

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2006 R	2005 R
Debtors written off as a percentage of operating income	0%	0%
Number of days consumer debtors outstanding	336	336

The VAT debtor has increased by R8 396 072 during the year under review due to non-settlement of claims submitted to SARS during this period. This is due to the fact that SARS does not settle current claim in the event that there are outstanding matters to be attended to in prior periods.

The District Municipality has engaged the services of a VAT specialist to assist in recovering the VAT debtor from SARS.

8. PROVISIONS

Leave pay	876,967	686,003
(Refer to appendix A for more detail)	<u>876,967</u>	<u>686,003</u>

9. CREDITORS

Trade Creditors and accruals	902,049	16,956,267
Other creditors	40,835,126	32,780,676
Inter-authority creditors	17,388,846	13,250,399
	<u>59,126,040</u>	<u>62,987,342</u>

10. LEVY INCOME

Basic rate

Regional Establishment Levy (% of turnover excluding VAT)	0.12%	0.12%
Regional Services levy (% of salaries, wages & drawings)	0.30%	0.30%

Levy income

Regional Establishment Levy	5,765,380	5,753,803
Regional Services levy	5,510,867	5,142,548
Interest Received	2,846	30,370
	<u>11,279,094</u>	<u>10,926,721</u>

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2006 R	2005 R
11. REMUNERATION		
COUNCILLORS' REMUNERATION		
Mayor's allowance	116,412	129,198
Deputy Mayor's allowance	311,834	245,227
Speaker's allowance	70,213	61,667
Members' allowances	755,877	663,204
Executive committee allowances	224,987	167,102
Local Authority attendance fees	42,770	-
Medical aid contributions	100,218	12,168
Pension fund contributions	36,504	73,797
	<u>1,668,815</u>	<u>1,352,363</u>
MANAGEMENTS' REMUNERATION		
Municipal Manager	637,712	540,646
Deputy Municipal Manager	521,089	445,119
Chief Financial Officer	496,315	433,054
Assistant Chief Financial Officer	351,144	270,508
Technical Manager	494,438	497,985
Development Planning Manager	494,438	439,793
Internal Auditor	348,194	375,403
Disaster Management	358,809	262,238
PIMMS Manager	194,099	296,554
	<u>3,896,258</u>	<u>3,561,299</u>
Remuneration: Other Staff	5,071,935	6,130,960
Total: Salaries, Wages and Allowances	10,627,006	11,044,622
Managements' Remuneration as a percentage of total remuneration	36.44%	32.24%
12. AUDITORS' REMUNERATION		
Audit fees	<u>538,223</u>	<u>613,379</u>

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2006 R	2005 R
13. FINANCE TRANSACTIONS		
Total external interest earned or paid:		
Interest earned	2,557,016	2,820,034
Interest paid	<u>342,007</u>	<u>341,590</u>
Capital charges debited to operating account:		
Interest : External	342,007	341,590
Redemption : External	172,236	156,977
Internal	149,099	-
	<u>663,342</u>	<u>498,567</u>
14. APPROPRIATIONS		
Appropriation account		
Accumulated surplus / (deficit) at the beginning of the year	26,855,249	8,336,210
Operating surplus / (deficit) for the year	12,493,085	12,173,240
Appropriations for the year	(9,810,458)	6,345,799
Interest received in prior year	-	701,381
Write-back of provisions	-	23,831
Correcting of incorrect allocations	(9,810,458)	5,620,588
Accumulated surplus at the end of the year	<u>29,537,676</u>	<u>26,855,249</u>
Operating account		
Capital expenditure	888,770	11,069,741
Contributions to provisions:	190,964	546,172
Leave pay	<u>190,964</u>	<u>546,172</u>
Contribution to Consolidated Capital Development Fund	1,163,679	1,975,762
	<u>2,243,412</u>	<u>13,591,675</u>

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2006 R	2005 R
15. CASH GENERATED BY OPERATIONS		
Surplus / (deficit) for the year	12,493,085	12,173,240
Adjustments in respect of:		
Previous years' operating transactions	(9,810,658)	6,345,799
Appropriations charged against income:	1,354,642	546,172
Consolidated Capital Development Fund	1,163,679	-
Provisions	190,963	546,172
Capital charges :	534,243	498,567
Interest paid :		
- on external loans	362,007	341,590
Redemption :		
- of external loans	172,236	156,977
Investment income (operating account)	(2,557,016)	(2,820,034)
Other income	-	-
Non-operating expenditure :		
Expenditure charged against		
Accumulated funds and reserves	(2,682,427)	-
	<u>(668,131)</u>	<u>16,743,744</u>
16. (INCREASE) / DECREASE IN WORKING CAPITAL		
(Increase) / Decrease in inventory	-	92,927
(Increase) / Decrease in debtors	4,590,049	(20,340,665)
Increase / (Decrease) in creditors	(3,670,339)	33,898,913
(Increase) / Decrease in long-term debtors	281,357	396,572
Increase / (Decrease) in consumer deposits	-	(38,272)
Increase / (Decrease) in short-term portion of long-term liabilities	216	(11,960)
	<u>3,201,304</u>	<u>13,997,515</u>
17. INCREASE / (DECREASE) IN LONG-TERM LOANS (EXTERNAL)		
Loans raised	-	3,000,000
Loans redeemed	(20,007)	(18,800,401)
	<u>(20,007)</u>	<u>(15,800,401)</u>

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

	2006 R	2005 R
18. (INCREASE) / DECREASE IN EXTERNAL CASH INVESTMENTS		
Investments made	-	(15,000,000)
Investments realised	3,754,863	20,302,459
	<u>3,754,863</u>	<u>5,302,459</u>

19. (INCREASE) / DECREASE IN CASH ON HAND AND AT BANK

Cash balance: beginning of the year	32,188,493	7,951,306
Less: Cash balance end of the year	34,998,314	32,188,493
	<u>(2,809,821)</u>	<u>(24,237,187)</u>

ABSA Bank Limited, Current Account, Dundee (Operating account)

20. RETIREMENT BENEFITS

Employees belong to the following funds within the Natal Joint Municipal Pension fund which provides retirement benefits to such employees.

- (i) Natal Joint Municipal Pension Fund (retirement)
- (ii) Natal Joint Municipal Pension Fund (superannuation)
- (iii) Natal Joint Municipal Pension Fund (provident)

The retirement plan is subject to the Pension Funds Act, 1956

Retirement Fund

An actuarial valuation of the the Natal Joint Municipal Pension Fund (Retirement) was conducted as at 31 March 2002. The value of the assets taken at full market value was less than the liabilities by R103 431 000 (the fund did not hold an "Investment Reserve").

There was a surplus of R29 714 000 in the Memorandum Account and a shortfall of R133 145 000 in the balance of the Fund which requires additional corrective measures to be taken. The overall position of the fund has improved in that the funding level has increased from 73.20% to a current level of 83.90%.

Basic contributions for future service exceeded that required by 2.7% of members pensionable emoluments. The surcharges payable should meet the service deficit by eight years provided increases in pensionable emoluments does not exceed inflation.

UMZINYATHI DISTRICT MUNICIPALITY

NOTES TO THE ANNUAL FINANCIAL STATEMENTS AT 30 JUNE 2006 (continued)

2006	2005
R	R

Superannuation Fund

An interim valuation of the the Natal Joint Municipal Pension Fund (Superannuation) was conducted as at 31 March 2002. The value of the assets taken at 95.5% of market value exceeded the values of the liabilities for the service of members to that date and for pensioners by R26 706 000.

There was surplus of R12 836 000 in the Memorandum Account and a surplus of R13 870 000 in the balance of fund. The fund held an Investment Reserve of some R78 400 000 as a cushion against volatility in investment markets.

The total contribution rate payable exceeded that required for future service by 4.06% of members pensionable emoluments. The fund was in a sound financial condition at 31 March 2002 and the actuary is satisfied that the asset composition of the fund at that date was appropriate to the nature of its liabilities.

Provident Fund

An interim actuarial investigation of the Fund was performed as at 31 March 2002. The investment reserve account stood at R13 150 000 and the unallocated reserve account at R5 098 000, which covers certain death benefits and expenses.

The costs of death benefits and expenses exceed the contributions of 3.75% being allocated to the unallocated reserve account and the resultant shortfall will be met out of the assets in the account. The actuary estimates that after five years it will be necessary to reduce benefits or increase contributions.

21. CONTINGENT LIABILITIES

In September 2003 the Municipality entered into an agreement with PriceWaterhouseCoopers for assistance in the collection of the VAT debtor of R7 647 612. In terms of this agreement an amount of R667 044 will be payable to PriceWaterhouseCoopers on successful collection of this debt.

22. MUNICIPAL ENTITIES

During the prior financial year the water and sanitation services assets were transferred to uThukela Water (Pty) Ltd in terms of a thirty year WSP agreement entered into by uThukela Water (Pty) Ltd and the four WSA's being uMzinyathi District Municipality, Amajuba District Municipality and Newcastle Local Municipality.

UMZINYATHI DISTRICT MUNICIPALITY

APPENDIX A

STATUTORY FUNDS, PROVISIONS AND RESERVES

	Balance at 30/06/2005 R	Contributions during the year R	Interest on Investments R	Other Income R	Expenditure during the Year R	Balance at 30/06/2006 R
ACCUMULATED FUNDS						
Consolidated Capital Development Fund	7,529,196	1,163,679	63,348	-	-	8,756,222
	7,529,196	1,163,679	63,348	-	-	8,756,222
PROVISIONS						
Leave pay	686,003	463,308	-	-	272,344	876,967
	2,932,088	463,308	-	-	272,344	876,967
RESERVES						
Government Grants						
Civil protection	23,500					23,500
CMC and Secretariat Grant	61,988					61,988
CMIP amounts received in advance	149,503					149,503
CMIP funding reserve	1,815,412				1,815,412	-
Community communication Initiative	50,000					50,000
DWAF	38,000				38,000	-
DWAF amounts received in advance	518,103					518,103
Emandleni Grazing Camp Grant	29,227					29,227
Financial Management Reforms	676,689				436,189	240,500
GIS System Grant	1,008,862				481,993	526,869
I D P Grant (Transitional Grant)	1,600,321	38,000			874,669	763,652
I S R D P projects	1,482,471					1,482,471
ICS Funding Grant	2,400,000				347,830	2,052,170
IDP and capacity building	50,000	50,000				100,000
INdllovu Committed Funds	1,078,852					1,078,852
INdllovu Net Residual Assets	703,337					703,337
Integrated transport plan	367,937				436,842	(68,905)
Municipal Support Grant	484,023				65,614	418,409
Municipal systems Improvement	4,991,646	356,020			1,038,918	4,308,748
Premier's Office Funding	40,881					40,881
Sports & Recreation: Fabeni Sports Complex	231,368				188,073	43,295
Sports & Recreation: Nquthu Sports Stadium	502,468				502,468	-
Sports & Recreation: uMvoti Sports Complex	314,857					314,857
Tourism	40,560					40,560
Transformation manager	545,220				31,542	513,677
Capital Carry-over Reserve	378,036				277,684	100,351
Disaster Management Fund	810,041				195,131	614,909
General Grants :DBSA funds for PM		146,400				146,400
General Grants :Gijima LED Participation		119,972				119,972
General Grants :LGTA water services delivery		231,000				231,000
General Grants :LGTA assets of water		450,000				450,000
Drought Relief	2,873,587				2,873,586	-
	23,266,888	1,391,392	-	-	9,603,951	15,054,326

UMZINYATHI DISTRICT MUNICIPALITY

APPENDIX B

EXTERNAL LOANS AND INTERNAL ADVANCES

				Balance at 30/06/2005 R	Received During the Year R	Redeemed or Written off During the Year R	Balance at 30/06/2006 R
OTHER LOANS							
DBSA loan	12.00%	2019		2,921,025		172,237	2,748,788
Finance leases		Various		445,531		149,100	296,431
				3,366,556	-	321,337	3,045,219

INTERNAL ADVANCES TO BORROWING SERVICES

Capital Development Fund				-			301,544
				-	-	-	301,544

UMZINYATHI DISTRICT MUNICIPALITY

APPENDIX C

ANALYSIS OF FIXED ASSETS

Expenditure 2005 R	Service R	Budget 2006 R	Balance at 30/06/2005 R	Expenditure 2006 R	Balance at 30/06/2006 R
11,069,741	Resource Support Services	67,247,012	32,782,567	888,770	33,671,337
11,069,741	TOTAL FIXED ASSETS	67,247,012	32,782,567	888,770	33,671,337
LOANS REDEEMED AND OTHER					
5,105,144	CAPITAL RECEIPTS	29,259,035	1,065,537	30,324,572	
-	Loans redeemed	-	176,767	176,767	
5,105,144	Contributions from operating income	29,213,654	139,892	29,353,546	
-	Surplus on sale of assets	18,764	-	18,764	
-	Grants and Subsidies	-	748,878	748,878	
-	Public contributions	26,617	-	26,617	
5,964,597	NET FIXED ASSETS	3,523,532	(176,767)	3,346,765	

UMZINYATHI DISTRICT MUNICIPALITY

APPENDIX D

ANALYSIS OF OPERATING INCOME AND EXPENDITURE

FOR THE YEAR ENDED 30 JUNE 2006

Actual 2005 R		Actual 2006 R	Budget 2006 R
INCOME			
73,546,908	Government and Provincial grants and subsidies	43,778,992	41,654,680
10,896,351	Levy income	11,276,248	10,595,000
1,030,591	Water sales	13,881,449	19,230,020
3,433,328	Other	2,811,819	2,232,868
<u>88,907,178</u>		<u>71,748,508</u>	<u>73,712,568</u>
EXPENDITURE			
11,044,622	Salaries, wages and allowances	10,627,008	16,869,191
48,761,374	General expenses	42,362,592	47,652,469
390,772	Repairs and maintenance	562,901	930,750
456,265	Capital charges	483,344	1,038,652
105,144	Contributions to fixed assets	139,892	5,696,006
15,975,761	Contributions	4,879,685	-
<u>76,733,938</u>	Gross expenditure	<u>59,255,422</u>	<u>72,187,068</u>
<u>76,733,938</u>	Net expenditure	<u>59,255,422</u>	<u>72,187,068</u>

UMZINYATHI DISTRICT MUNICIPALITY

APPENDIX E

DETAILED INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2004

2005 Actual income R	2005 Actual expenditure R	2005 Surplus/ (deficit) R
58,300,567	46,127,327	12,173,240
15,550	5,311,888	(5,296,338)
457,564	1,967,096	(1,509,532)
	2,248,416	(2,248,416)
2,804,417	2,061,351	743,066
10,926,721	47,6258	10,430,463
107,144	324,624	(217,480)
32,078,657	20,044,086	12,034,571
1,304,697	1,309,706	(5,009)
122,804	2,331,027	(2,208,223)
323,311	326,278	(2,966)
10,159,702	9,238,768	920,934
	487,829	(487,829)
30,606,612	30,606,612	-
29,570,813	28,447,825	1,122,988
957,693	2,158,787	(1,201,095)
78,107		78,107
88,907,179	76,733,939	12,173,240

TOTAL

6,378,851 Appropriations for this year (refer to note 14)

18,552,091 Net surplus for the year

8,336,210 Accumulated surplus beginning of the year

26,888,301 Accumulated surplus end of year

2004 Actual income R	2004 Actual expenditure R	2004 Surplus/ (deficit) R	Budget Surplus/ (deficit) R
38,789,287	24,091,634	14,697,651	(656,951)
34,500	3,678,778	(3,644,278)	3,279,923
	1,925,053	(1,925,053)	2,334,197
	1,789,967	(1,789,967)	3,153,226
2,555,201	2,081,703	473,498	2,794,498
11,279,094	452,051	10,827,043	(9,864,211)
93,512	338,126	(244,614)	
23,701,221	7,741,657	15,959,564	(12,768,644)
1,000,000	1,000,000	-	63,292
25	2,052,071	(2,052,046)	3,807,565
	32,969	(32,969)	435,590
7,400	1,088,023	(1,080,623)	1,973,158
332	199,440	(199,108)	1,940,162
118,002	1,711,798	(1,593,796)	1,908,356
		-	285,937
33,315,239	35,519,805	(2,204,566)	(848,549)
33,315,239	35,519,805	(2,204,566)	(848,549)
		-	
		-	
72,104,824	59,411,441	12,493,086	(1,826,800)

(9,810,658)

2,482,427

26,888,301

29,570,728

UMZINYATHI DISTRICT MUNICIPALITY

APPENDIX F : STATISTICAL INFORMATION

	2006	2005	2004	2003	2002	2001
General Statistics						
Levy tariffs						
Regional Establishment Levy (% of Turnover excluding VAT)	0.12	0.12	0.12	0.12	0.12	0.12
Regional Services Levy (% of Salaries, wages & drawings)	0.30	0.30	0.30	0.30	0.30	0.30
Number of Registered Levy Payers	1,245	1,896	1,791	1,459	1,279	1,977
Number of councillors of the Municipality	23	22	22	23	23	23
Number of employees of the Municipality	53	44	86	112	106	89
Number of water connections	-	-	722	236	*	*
Water Statistics						
Units purified (kL)	-	-	6,317,998	*	*	*
Units Sold (kL)	-	-	5,175,736	*	*	*
Distribution Loss (kL)	-	-	1,142,262	*	*	*
Distribution Loss (%)	-	-	18%	*	*	*
Average cost per unit sold (R)	-	-	3.98	*	*	*

* = Information not available